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April 7, 1998

The Honorable John M. McHugh  
Chairman  
Subcommittee on Postal Service  
The House of Representatives  
Washington D.C. 205 15

Dear Chairman McHugh:

The American Business Press, the association of the nation's leading business-to-business and professional periodicals, both on its own and as a founding member of the Main Street Coalition has been an active participant in the effort you have led to improve the nation's postal system. ABP has participated in and endorses the comments provided today by the Coalition but files these supplemental comments to focus more closely on the postal rate setting process today and how it might be changed by legislation.

ABP is well equipped to comment on the rate setting process, having participated actively in every rate case before the Postal Rate Commission since the passage of the Postal Reorganization Act of 1970. We know that there have been complaints about that process from the Postal Service and from some-but by no means all-of those who, like ABP, have been major parties to those cases. That is to be expected, because, by its very nature, the litigation process produces both satisfied and unsatisfied participants. Overall, although we hardly agree with every rate decision that has been issued and implemented, ABP is a satisfied participant.

We are satisfied, not only because, as discussed below, the existing procedures have protected ABP members and thousands of small publishers from destructive rate proposals by the Postal Service, but also because the system has afforded ABP and every mailer in the country the opportunity to be heard before rate and classification changes are approved. That opportunity would be lost under the procedures of H.R. 22, and loss of that opportunity must be offset in any legislation by benefits to mailers and the nation as a whole, or the trade is not a good one.

Before commenting on the specifics of H.R. 22, as we understand them in the absence of legislative language, we would like to provide a few examples that demonstrate the reasons for ABP's general approval of the present system. ABP members typically publish small circulation, specialized periodicals (average circulation of about 50,000-60,000) with editorial content that is crucial to the nation's economic welfare.

In fact, most periodicals are this size, or smaller. Postage costs are one of the largest costs incurred by these publishers, so postal rates can literally become a “make or break” item, especially for startup magazines, such as those serving neophyte industries, and highly specialized magazines providing the broad mix of news and ideas required by the American public.

In recent years, the Postal Service has on several occasions proposed changes in the way that periodical rates are calculated that would not, in and of themselves, have produced a penny of extra revenue from the class of periodicals but would have imposed large postage cost increases on small circulation periodicals and on periodicals that contain a high percentage of editorial content. Specifically, for example, the Postal Service has several times proposed to eliminate the long-standing practice of offering a “flat,” that is, unzoned, rate for the editorial content of periodicals, seeking instead to charge that editorial content the same type of distance-sensitive rate that is charged to the advertising portion of a magazine.

Believing that such a fundamental change in the way that rates are calculated would fly in the face of the Congressional mandate that the Postal Service is to act as a public service to “bind the nation together,” ABP opposed these proposals in cases before the Postal Rate Commission. Fortunately for ABP members, for many thousands of small publishers that are not members and, we firmly believe, for the good of the nation, the Postal Rate Commission has consistently reaffirmed the unzoned editorial rate and rejected these proposals. Such rejections did not deprive the Postal Service of any revenue; they simply required that it collect its revenue in accordance with Congressional policy and the Postal Reorganization Act.

Similarly, in 1995 the Postal Service proposed a major change in the classification schedule that was labeled as “revenue neutral” but that would have produced double digit rate increase for all but a relative handful (a couple of hundred out of about twenty thousand) periodicals. Once again, ABP was able to convince the Postal Rate Commission that a proposal offered as producing greater “efficiency” would in fact be destructive of the periodical industry. The proposed bifurcation of periodicals into what would in essence have been a subclass for a few mass circulation magazines and a separate subclass for the great majority of periodicals was rejected.

The case now pending before the Postal Rate Commission provides a final, somewhat different example of the protections to mailers the elimination of which must be heavily weighed. Unlike the prior examples, which tended to pit mass circulation periodicals against the rest of the class, all periodical mailers have united in the pending case to challenge alleged periodical handling costs that are seemingly out of control and inexplicable, costs that despite additional “worksharing” by mailers and automation by the Postal Service, have increased since 1986 much more rapidly than postal labor costs. The present rate-setting scheme provides a forum for raising and resolving these issues that apparently would be lost under H.R. 22, and for which a price cap regime would be a highly imperfect substitute.

Again, ABP's belief in the value of the present system-a system that despite criticism has been flexible enough to allow the Postal Service to earn billion dollar profits year after year-does not mean that ABP is opposed to all change. What it does mean, however, is that ABP opposes change for the sake of change, or change based upon the mistaken belief that the present system is hopelessly infirm. It is in that light that we have considered the fundamental rate features of H.R. 22

Our first reaction is that, as presently conceived, the bill is a substantial improvement over previous proposals that have emanated both from your Subcommittee and from various stakeholders. It responds to concerns by ABP and others that excessive Postal Service flexibility within "baskets" (or other groupings) must be avoided, and for that we are grateful. Unfortunately, from ABP's perspective, it does not appear to go far enough

We share and will not repeat the Main Street Coalition's views about the efficacy of a price cap approach in the context of a not-for-profit governmental entity and about the likely adverse impact upon smaller mailers of any system that allows negotiated rates and service agreements with the largest mailers. Discounts based on volume, even those cleverly disguised in a cloak of general availability but as a practical matter obtainable only to the largest volume mailers, will inevitably create discrimination-often among competitors-and will eventually result in higher costs or lesser service for the disfavored.

The one feature of the H. R. 22 proposal as to which ABP would like to expand upon the Main Street comments is the "deviation band" (our words, not yours) establishing Postal Service pricing flexibility around the price cap and within each basket. We appreciate your and the Postal Service's dilemma in the face of what would otherwise be a requirement for lock-step changes in every rate category within a basket, but we hope that the above history involving the editorial rate and reclassification (to which we could have added the unsuccessful attempt to impose a pallet discount with a sack surcharge) explains our dilemma. Any ability on the part of the Postal Service to manipulate rates within a basket (or a subclass) to favor certain mailers at the expense of others and to do so without statutory standards and without effective regulatory or judicial oversight merely means to us that it will be able to accomplish under H.R. 22 what the Postal Rate Commission has rejected after full evidentiary hearings.

There is no clear-cut resolution to these dueling dilemmas, and the history of regulation offers no examples of a regulated monopoly being given the freedom to set its own rates a little (at a time), but not a lot. Clearly in the case of non-competitive services (such as Periodicals), there is no market discipline to prevent a move to pricing that under the present scheme has been found to be unlawful, and the imposition of a deviation band simply means that it might take a little longer for the Postal Service to arrive at the rates it prefers, expedited through the "magic of compounding."

That said, if legislation is advanced that establishes a rate setting regime similar to that described in your December 11, 1997 letter, ABP agrees with the Main Street Coalition that the deviation band must be tightened considerably if not eliminated entirely. When a band of plus or minus two percent was first proposed, ABP believed, as did

others, that it would operate in such a way as to permit deviations from the cap of up to two percent, in either direction. In other words we thought that if the cap were 5%, any rate change for that basket must be within the 3% to 7% range (or 5%, plus or minus 2%).

We have now been told, at least as to the present proposal, that is not what is intended. Rather, we are told, the deviation band would permit a rate change on the high side of the cap plus 2%, but on the low side of an absolute 2% reduction in the then present rate. With very mild inflation and a correspondingly low cap, the difference between these two approaches, while significant, is not enormous. But in a more inflationary period, during which time the cap may be 9%, for example, the Postal Service would be free to create an unjustified, unreviewable divergence in rates of as much as 13% per year (a range of plus 11% to negative 2%). It would take only two years to accomplish the massive rate shift that the Postal Rate Commission rejected in the reclassification case.

If we assume for sake of this discussion the premise of Postal Service rate setting authority without Rate Commission oversight, and the existence of some sort of deviation band, we can offer only an imperfect solution to the problem. As suggested in the Main Street letter, that solution would be to return to the concept of a band that is only four percentage points wide irrespective of the level of the cap. We recognize from your staff's comments that a band of plus or minus two percent from the cap was deemed to provide insufficient flexibility for the Postal Service, in part because it could well have required rate increases for certain categories, even if none was deemed advisable. We have therefore reconsidered and propose that the Postal Service be permitted to "place" the four percentage point wide band where it chooses, as long as no rate is increased by more than 2% above the cap, and none is decreased more than 2% from the preexisting rate.

In other words, if the cap is 3%, and the Postal Service chooses to raise any rate in the basket by the maximum 5%, then the bottom of the four percentage point range is plus 1%. With the same cap, if it chooses to reduce a rate by the maximum 2%, then the maximum increase for any other rate in the basket would be plus 2%. If the cap is 9%, the possible ranges would be <+11% to +7%>, <+10% to +6%>, <+9% to +5%>, etc., down to <+4% to 0%>, <+3% to -1%>, and <+2% to -2%>. Such a system would prevent massive swings in a single year and impose some discipline, albeit perhaps not enough, on the Postal Service.

Once again ABP appreciates both the opportunity to participate in this process and the knowledge that its views will be considered as well as received. We continue to be available to you and your staff to address any of our concerns, as expressed in these comments or in those of the Main Street Coalition.

Best personal regards,

Gordon T. Hughes II